



Exporter Verification Report

Verification & Case Details

Initiation Date	18/03/2019	ADN:	2019/35
Case:	Dumping Investigation - Power Transformers from China		
Case Number	507		
Exporter	GE High Voltage Equipment (Wuhan) Co. Ltd		
Location	CHINA		
Verification from	13/05/2019	to	17/05/2019
Investigation Period	1/01/2016	to	31/12/2018

THIS REPORT AND THE VIEWS OR RECOMMENDATIONS CONTAINED THEREIN WILL BE REVIEWED BY THE CASE MANAGEMENT TEAM AND MAY NOT REFLECT THE FINAL POSITION OF THE ANTI-DUMPING COMMISSION

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1 COMPANY BACKGROUND

1.1 Corporate Structure and Ownership

GE High Voltage Equipment (Wuhan) Co. Ltd (hereafter referred to as GE Wuhan).

GE Wuhan is a wholly foreign owned enterprise within the GE group structure, with main operations including the purchase, design, manufacture, assembly, testing and sales of high voltage and ultra-high voltage electrical equipment, including power transformers.

GE Wuhan is an export orientated enterprise, with export sales of the goods made directly to unrelated end-users or through related entities which provide importation of the goods, installation and other services.

1.2 Related Parties

The verification team examined the relationships between related parties involved in the manufacture and sale of the goods.

1.2.1 Related Customers

GE Wuhan did not sell like goods to related parties on the domestic market.

All of GE Wuhan's Australian sales of the goods in the investigation period were to a related entity, GE Grid Australia Pty Ltd (hereafter referred to as GE AU). GE AU was ultimately responsible for tendering with unrelated customers (end-users), and for installation of the goods.

GE Wuhan's sales to third countries were to both related and unrelated entities.

Having regard to the price setting, price negotiation, and dealings with related and non-related entities, the verification team was satisfied that Australian sales of the goods were arms length transactions and has included all sales in its assessment of the variable factors relevant to GE Wuhan.

1.2.2 Related Suppliers

GE Wuhan primarily sourced raw materials and components for the manufacture of power transformers from unrelated domestic and overseas suppliers. Where materials/components were sourced from related parties, the verification team found no evidence that suggested prices were influenced due to their relationship.

The verification team was satisfied that raw material purchases from related parties were arms length transactions and has included all costs as incurred in its assessment of the variable factors relevant to GE Wuhan.

2 THE GOODS AND LIKE GOODS

2.1 Production Process

Major steps in the production process include:

- Construction of the core
- Winding
- Active part assembly
- Testing
- Vapour phase drying
- Repacking and assembly
- Vacuum and oil filling
- Testing and final assembly
- Packing and delivery

2.2 The goods subject to measures

The goods subject to the dumping investigation are:

*liquid dielectric power transformers with power ratings of equal to or greater than 10 MVA (mega volt amperes) and a voltage rating of less than 500kV (kilo volts) whether assembled or unassembled, complete or incomplete.*¹

2.3 The goods exported to Australia

The verification team were satisfied that GE Wuhan produced and exported the goods to Australia during the investigation period.

2.4 Like goods sold on the domestic market

The verification team were satisfied that GE Wuhan sold some like goods in the domestic market.

The verification team considers that the goods manufactured for domestic consumption have characteristics closely resembling the goods exported to Australia, as they:

- are not distinguished from the exported goods during production (the exported goods and goods sold on the domestic market are produced in the same way, subject to individual customer specifications);
- are produced at the same facilities, using similar raw material inputs and manufacturing processes;
- the goods compete in the same market sectors, following similar negotiation processes; and
- can be considered functionally alike, as they have similar end uses.

¹ Refer to ADN 2019/35 for more information – Anti-Dumping Commission, ADN 2019/35 – Initiation of an investigation into alleged dumping, Investigation No. 507, Electronic Public Record, Anti-Dumping Commission, <<https://www.industry.gov.au/data-and-publications/anti-dumping-commission-current-cases>>.

2.5 Like goods – assessment

The verification team considers that the goods produced by GE Wuhan for domestic consumption have characteristics closely resembling those of the goods exported to Australia and are therefore 'like goods' in accordance with subsection 269T(1) of the *Customs Act 1901* (the Act).²

2.6 Model matching

ADN 2019/35 set out the Commission's position that, "in accordance with the Commission's Model Control Code (MCC) policy, the MCC structure is not considered to be relevant for the goods as each sale of power transformers is a unique and is not necessarily comparable to any other sale."³

In its response to the exporter questionnaire (REQ), GE Wuhan stated that each power transformer is unique and made to order, and provided information on the specifications of domestic and Australian sales. The verification team was satisfied that based on this information, domestic sales were not suitable for matching with Australian sales, due to differences in specifications.

² References to any section or subsection in this report relate to provisions of the *Customs Act 1901*, unless specifically stated otherwise.

³ ADN 2019/35 – Anti-Dumping Commission website, <<https://www.industry.gov.au/sites/default/files/adc>>.

3 UPWARDS VERIFICATION OF SALES

3.1 Verification of Sales Completeness and Relevance

Verification of relevance and completeness is conducted by reconciling selected data submitted "upwards" through management accounts up to audited financial statements. The verification team verified the completeness and relevance of the export and domestic sales listings provided in the REQ by reconciling these to audited financial statements in accordance with ADN. No 2016/30.

The verification team verified the relevance and completeness of GE Wuhan's sales data as follows:

- GE Wuhan's total operating revenue for financial years 2016-2018 was tied to the amount for the investigation period (1 January 2016 to 31 December 2018) based on GE Wuhan's audited financial statements for the financial years 2016 and 2018⁴ and internal management report for the financial year 2018;
- sales revenue and volumes were separated by product specifications to identify sales of subject and non-subject goods;
- sales revenue and volumes were separated into each market – domestic, Australia and third countries – based on the relevant sales division and customer;
- sales contracts relating to the goods entered outside the investigation period but where revenue was recognised during the investigation period was traced to relevant source documents; and
- the verification team reconciled the total net sales revenue and volumes of relevant products for each market to the respective sales listings that GE Wuhan provided in its final revised response to the exporter questionnaire spreadsheet.

The verification team identified the issues outlined below during this process. Details of this verification process are contained in the verification work program, and its relevant attachments, at **Confidential Attachment 1**.

⁴ At the time of the visit, GE Wuhan's financial reports were in the process of being audited. GE Wuhan provided the audited financial statements following the visit which matched the draft report provided to the verification team onsite.

PUBLIC RECORD

3.1.1 Exceptions during Verification of Sales Completeness and Relevance

No.	Exception	Resolution	Evidence Relied On
1	For the financial year 2018, the sales revenue provided in the REQ did not reconcile with the draft financial statements for 2018. The quarterly management account for the FY2018 and the draft account reconciled.	GE Wuhan explained that the variance was the adjustment by auditors due to change in policy for revenue recognition from FY2018. Details of project by project variance together with evidence and policy documents were provided to the verification team. The verification team accepted GE Wuhan's explanation.	Project by project variance was identified by GE Wuhan. A copy of the change in GE Wuhan's revenue recognition was also provided to the verification team.

3.2 Completeness and Relevance Finding

The verification team are satisfied that the sales data provided in the final revised exporter questionnaire response by GE Wuhan including any required amendments as outlined as an exception above, is complete and relevant.

Details of this verification process are contained in the verification work program, and its relevant attachments, at **Confidential Attachment 1**.

4 DOWNWARDS VERIFICATION OF SALES

4.1 Verification of Sales Accuracy

The accuracy of data is verified by reconciling selected data submitted "downwards" to source documents. This part of verification involves the process of agreeing the volume, value and other key information fields within the sales data and cost data down to source documents. This verifies the accuracy of the data (e.g. for sales data, the volume and value of the records for selected transactions are accurate and reflect sales that did occur). The verification team verified accuracy of the export and domestic sales listings submitted in the REQ by reconciling these to the source documents in accordance with ADN. No 2016/30.

The verification team identified the issues outlined below during this process. Details of this verification process are contained in the verification work program, and its relevant attachments, at **Confidential Attachment 1**.

4.1.1 Exceptions during Verification of Sales Accuracy

No.	Exception	Resolution	Evidence Relied On
1	Some export and domestic sales transactions had warranty expenses omitted.	Revised Australian and domestic sales listing were provided with warranty costs included for all transactions.	Copy of warranty policy (English translated) was provided to the verification team.
2	The sales listing did not provide total contract values for all projects.	Revised Australian and domestic sales listing including contract value was provided for all projects.	Revised data provided were verified and the contract values were matched with the sales listing.
3	Inland transportation & ocean freights data were based on estimates.	Revised Australian and domestic sales listing was provided for all projects.	Ocean freight and Inland transportation cost allocation methodology & inclusion of handling & other expenses were provided and verified.
4	Packing, warranty and other costs did not match with the information provided in CTMS spreadsheet.	Revised Australian and domestic sales listing matched packing, warranty and other costs.	This error was due to adjustments made in the CTMS.
5	The related entity (GE AU) deducted part of the payment amount on one occasion.	GE Wuhan provided evidence as to why part of the payment was deducted.	This was done on one isolated occasion. Evidence and detailed explanation was provided for this payment deduction.
	For domestic sales outsourcing costs for bidding for some transactions were omitted.	Revised Domestic sales listing matched bidding costs information provided.	Bidding cost source information/data was verified and matched to the revised data.

4.2 Sales Accuracy Finding

The verification team are satisfied that the final revised sales data provided in the exporter questionnaire response by GE Wuhan including any required amendments as outlined as an exception above, is complete and accurate.

5 COST TO MAKE AND SELL

5.1 Verification of completeness and relevance of CTMS data

The verification team verified the completeness and relevance the cost to make and sell (CTMS) information provided in GE Wuhan's REQ by reconciling it to audited financial statements in accordance with ADN No. 2016/30.

The verification team identified the issues outlined below during this process. Details of this verification process are contained in the verification work program, and its relevant attachments, at **Confidential Attachment 1**.

5.1.1 Exceptions during Verification of Completeness and Relevance of CTMS data

No.	Exception	Resolution	Evidence Relied On
1	The reported domestic and Australian CTMS could not be reconciled precisely to GE Wuhan's financial system.	GE Wuhan updated their CTMS data with FX adjustments relevant to raw material purchases and based on actual costs incurred as of 14 May 2019.	Relevant information was verified relating to variances and FX gains/losses for raw material purchases.
2	Warranty expenses had not been included for all sales.	The domestic and Australian CTMS was updated to reflect warranty expenses incurred/accrued.	Verification of costs booked to each project in SAP.
	Finance costs were not included in GE Wuhan's SG&A listing/calculation.	GE Wuhan updated their SG&A listing and relevant financial expenses were allocated to the goods.	Audited financial statements, verification of SG&A expenses.

5.2 Completeness and Relevance Finding of CTMS data

The verification team are satisfied that the cost to make and sell (CTMS) data provided in the final revised exporter questionnaire response by GE Wuhan, including any required amendments as outlined as an exception above, is complete and relevant.

5.3 Verification of CTMS Allocation Methodology

The verification team verified the reasonableness of the methodology used to allocate the CTMS information provided in the REQ to the relevant models, in accordance with ADN No. 2016/30.

Cost Area	Methodology Applied	Evidence Relied On
Raw Materials	Actual costs for raw materials consumed were allocated directly to each project. Freight costs for raw material purchases were allocated directly to each project using a standard costing methodology.	Bill of material, commercial invoices, purchase orders.
Scrap Allocation	Scrap is sold to third parties as other income. In certain instances where quality issues/defects are identified, sales of scraped materials offset secondary costs incurred.	Verification of costs in accounting system.
Manufacturing Overheads	'Labour production overheads' were allocated directly to each project based on labour hours and a standard costing methodology. 'Sourcing overheads' were allocated directly to each project based on external material purchases and a standard costing methodology.'	Cost accounting system, production report, profit and loss statement, cost verification.
Labour	Allocated directly to each project based on labour hours and a standard costing methodology.	Cost accounting system, production report, profit and loss statement, cost verification.
Depreciation	Depreciation relating to production is allocated directly to the goods in overheads. Other depreciation expenses are allocated to all products in the SG&A.	Verification of Asset Register and reconciling selected invoice to the source documents to the cost accounting system.
Packaging	Packaging is outsourced and costs incurred are allocated directly to each project.	Verification of cost accounting system, commercial invoices, purchase orders.

The verification team identified the issues outlined below during this process. Details of this verification process are contained in the verification work program, and its relevant attachments, at **Confidential Attachment 1**.

5.3.1 Verification of CTMS Allocation Methodology Exceptions

No.	Exception	Resolution	Evidence Relied On
1	Costs for two projects were combined in the domestic CTMS, although these projects were costed separately in GE Wuhan's accounting system.	GE Wuhan updated their CTMS data, reporting costs separately for these two projects.	Costs verified in GE Wuhan's EAS Report from SAP with costs booked to each project.
2	Direct labour, manufacturing overhead expenses and freight costs for material/component purchases were allocated to the goods based on standard costs rather than actual costs.	An adjustment was made to GE Wuhan's domestic and Australian CTMS to account for differences between actual and standard costs.	Verification of GE Wuhan's cost allocation methodology, verification of standard cost allocations, actual costs and variances between actual and standard costs.

5.4 Verification of CTMS Methodology Finding

The verification team are satisfied that the allocation methodology for the cost to make and sell (CTMS) data provided in the exporter questionnaire response by GE Wuhan, including any required amendments as outlined as an exception above, is reasonable.

5.5 Verification of Accuracy of CTMS data

The verification team verified the accuracy of the CTMS information provided in the REQ by reconciling it to source documents in accordance with ADN No. 2016/30.

The verification team identified the issues outlined below during this process. Details of this verification process are contained in the verification work program, and its relevant attachments, at **Confidential Attachment 1**.

5.5.1 Exceptions during Verification of Accuracy of CTMS data

No.	Exception	Resolution	Evidence Relied On
1	As noted in the upwards verification of costs, the reported domestic and Australian CTMS could not be reconciled precisely to GE Wuhan's financial system.	GE Wuhan updated their CTMS data with FX adjustments relevant to raw materials and based on actual costs incurred as of 14 May 2019, including warranty expenses.	Relevant information was verified relating to variances and FX gains/losses for raw material purchases.

5.6 Accuracy Finding of CTMS data

The verification team are satisfied that the cost to make and sell (CTMS) data provided in the final revised exporter questionnaire response by GE Wuhan, including any required amendments as outlined as an exception above, is accurate.

6 EXPORT PRICE

6.1 The importer

In relation to the sales to GE AU, the verification team observed that:

- GE AU is named as the purchaser on the commercial invoices/purchase orders;
- Commercial invoices to GE AU are on either FOB or CIF incoterms, with GE AU being responsible for the importation of the goods;
- GE AU is named as the consignee on the bill of lading;
- GE AU is named as the importer on the ABF import database; and
- GE AU is liable for the payment of all customs duties (including anti-dumping duties), brokerage fees and all charges up to the point of delivery and installation of the goods.

Having regard to this information, the verification team considers that GE Grid Australia Pty Ltd was the beneficial owner of the goods at the time of importation into Australia, and therefore the importer of the goods.

6.2 The exporter

The Commission generally identifies the exporter as a principal in the transaction, located in the country of export from where the goods were shipped, that gave up responsibility by knowingly placing the goods in the hands of a carrier, courier, forwarding company, or its own vehicle for delivery to Australia; or a principal in the transaction, located in the country of export, that owns, or previously owned, the goods but need not be the owner at the time the goods were shipped.

In relation to the sales to GE AU, the verification team observed that:

- GE Wuhan is named as the seller on the commercial invoices/purchase orders;
- GE Wuhan is named as the shipper on the bill of lading;
- GE Wuhan manufactures the goods and is located in the region of export; and
- GE Wuhan transfers title to the goods, knowing that they are destined for Australia.

Having regard to this information, the verification team is satisfied that GE Wuhan was the exporter of the goods.

6.3 Arms length

In respect of GE Wuhan's Australian sales of the goods during the period, the verification team found no evidence that suggests:

- there was any consideration payable for, or in respect of, the goods other than its price; or
- the price was influenced by a commercial or other relationship between the buyer, or an associate of the buyer, and the seller, or an associate of the seller; or
- the buyer, or an associate of the buyer, was directly or indirectly reimbursed, compensated or otherwise receive a benefit for, or in respect of, the whole or any part of the price.⁵

The verification team therefore considers that all export sales to Australia made by GE Wuhan during the period were arms length transactions.

⁵ Section 269TAA of the Act refers.

6.4 Export Price – assessment

In respect of Australian sales of the goods by GE Wuhan, the verification team recommends that the export price be determined under paragraph 269TAB(1)(a), as the price paid by the importer to the exporter less transport and other costs arising after exportation.

The verification team's preliminary export price calculations are at **Confidential Appendix 1**.

7 DOMESTIC SALES SUITABILITY

The verification team has assessed the domestic sales to determine if the prices paid in respect of domestic sales of like goods are suitable for assessing normal value under subsection 269TAC(1).

7.1 Arms length

In respect of domestic sales of the goods made by GE Wuhan to its customers during the investigation period, the verification team found no evidence that suggests:

- there was any consideration payable for, or in respect of, the goods other than its price; or
- the price was influenced by a commercial or other relationship between the buyer, or an associate of the buyer, and the seller, or an associate of the seller; or
- the buyer, or an associate of the buyer, was not directly or indirectly reimbursed, compensated or otherwise received a benefit for, or in respect of, the whole or any part of the price.

The verification team therefore considers that all domestic sales made by GE Wuhan to domestic customers during the period were arm's length transactions.

7.2 Ordinary course of trade

Section 269TAAD provides that if like goods are sold in the country of export at a price less than the cost of such goods, and are unrecoverable within a reasonable period, then they are taken not to have been sold in the ordinary course of trade (OCOT).

The verification team compared the revenue (i.e. net sales value) for each domestic sale of like goods to the corresponding CTMS to test whether those sales were profitable.

Where the volume of unprofitable sales exceeded 20 per cent for a particular model, the verification team tested the recoverability of the unprofitable sales by comparing the revenue for each transaction to the corresponding weighted average CTMS over the investigation period. Those sales found to be unrecoverable were considered not to be in the ordinary course of trade.

7.3 Suitability of domestic sales

Section 269TAC(2)(a)(i) provides that the normal value of goods exported to Australia cannot be ascertained under section 269TAC(1) where there is an absence, or low volume, of sales of like goods in the market of the country of export that would be relevant for the purpose of determining a price under section(1).

As outlined in Chapter 2, export sales of the goods are specific to customer requirements and not necessarily comparable to other sales. Moreover, the verification team considers that there were significant differences in specifications between GE Wuhan's exports to Australia and domestic sales, which made domestic sales unsuitable for model matching.

The verification team therefore recommends calculating a constructed normal value under section 269TAC(2)(c), in accordance with the *Customs (International Obligations) Regulation 2015* ("the Regulation"), as outlined at Chapter 9 of this report.

7.4 Profit

Where the Commission is required to calculate a normal value under section 269TAC(2)(c), an amount of profit must be determined. The verification team has calculated an amount of profit in accordance with section 45(2) of the Regulation, based on the production and sale of like goods by GE Wuhan on the domestic market in the ordinary course of trade.

7.4.1 GE Wuhan's response

In response to the methodology used to calculate the profit, GE Wuhan provided the following comment:

"The profit calculation is based on the sale of a single transformer which GE Wuhan argues is not representative of the profits it has obtained on other sales of like goods during the investigation period. GE Wuhan strongly disagrees with the calculation of profit and intends to lodge a submission on this point."

8 ADJUSTMENTS

To ensure the normal value is comparable to the export price of goods exported to Australia at free-on-board (FOB) terms, the verification team has considered the following adjustments in accordance with subsection 269TAC(9).

8.1 Rationale and Methodology

Adjustment Type	Rationale for Adjustment	Calculation Methodology	Evidence	Claimed in REQ?
Credit expenses (domestic and export)	GE Wuhan claimed to have different payment terms for domestic and export sales.	The verification team assessed credit expenses in accordance with Chapter 15 of the Dumping and Subsidy Manual. ⁶ The verification team did not identify material differences in credit terms between domestic and export sales and therefore has not made an adjustment.	Payment terms were verified to relevant source documents. Where payment terms could not be identified from source documents, the verification team had regard to the payment days from issuance of the relevant invoices.	Yes
Packaging (domestic and export)	Power transformers sold by GE Wuhan had different packing costs.	The actual packaging costs were allocated to each sale.	Commercial invoices and supporting documentation.	GE Wuhan stated that there was no clear difference in domestic and export costs but reported all costs as applicable.
Inland transport and handling (domestic and export)	Power transformers sold by GE Wuhan had different inland transport and handling expenses.	The actual or estimated inland transport and handling costs were allocated to each sale.	Commercial invoices and supporting documentation.	GE Wuhan reported domestic and export costs as applicable.
Warranty expenses (domestic and export)	GE Wuhan accrued different warranty costs in relation to all domestic and export sales.	The actual warranty costs accrued or incurred was allocated to each sale.	Verification of costs data from GE Wuhan's financial system.	GE Wuhan reported domestic and export costs as applicable.

⁶ Anti-Dumping Commission, Dumping and Subsidy Manual (November 2018), Chapter 15 – Due Allowance, p. 75.

8.2 Adjustments

Adjustment Type	Deduction/addition
Export packing	Add the cost of export packing
Export inland transport and handling	Add the cost of export inland transport and handling
Export warranty expenses	Add the cost of export warranty expenses

The verification team's preliminary adjustment calculations are included in normal value calculations at **Confidential Appendix 4**.

9 NORMAL VALUE

The verification team is satisfied that because of the absence, or low volume, of sales of like goods in the market of the country of export that would be relevant for the purpose of determining a normal value, the normal value of goods exported to Australia cannot be ascertained under subsection 269TAC(1).

The verification team has therefore calculated a preliminary normal value under subsection 269TAC(2)(c), as:

- the cost to make of the goods exported to Australia in accordance with section 43(2) of the Regulation;
- the SG&A in accordance with section 44(2) of the Regulation, having regard to SG&A as a proportion of revenue of domestic sales of like goods, and applying this proportion to the export sales of the goods based on the revenue of each sale; and
- an amount of profit in accordance with section 45(2) of the Regulation, based on the production and sale of like goods by GE Wuhan in the OCOT.

The verification team's preliminary normal value calculations are at **Confidential Appendix 4**.

10 DUMPING MARGIN

10.1 Assessment

The dumping margin has been assessed by comparing the Australian export prices determined in respect of individual transactions to the corresponding normal values for the investigation period, in accordance with paragraph 269TACB(2)(b) of the Act.

The dumping margin in respect of the goods exported to Australia by GE High Voltage Equipment (Wuhan) Co. Ltd during the investigation period is **42.4 per cent**.

Details of the preliminary dumping margin calculation are at **Confidential Appendix 5**.

10.1.1 GE Wuhan's response

In response to the preliminary assessment of the dumping margin, GE Wuhan provided the following comment:

"GE Wuhan strongly disagrees with the calculation of the profit element of the normal value. GE Wuhan believes that has resulted in an incorrect dumping margin and intends to lodge a submission on this point."

11 APPENDICES AND ATTACHMENTS

Confidential Appendix 1	Export price
Confidential Appendix 2	Cost to make and sell
Confidential Appendix 3	Domestic sales, OCOT and profitability
Confidential Appendix 4	Normal Value
Confidential Appendix 5	Dumping Margin
Confidential Attachment 1	Verification work program